

Message Text

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FOR BEWT/TDAD (STECHSCHULTE)

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E.O. 11652: N/A
TAGS: BEXP, EIND, UR
SUBJECT: EXPANSION OF SOVIET TIRE PRODUCTION FACILITIES

1. BEGIN SUMMARY. FROM RECENT DISCUSSIONS WITH U.S. PRODUCERS OF EQUIPMENT FOR TIRE MAKING INDUSTRY IT APPEARS SOVIETS MAY BE ON VERGE OF AWARDING CONTRACTS FOR THREE MAJOR TIRE PRODUCTION FACILITIES. TIRE PLANTS IN QUESTION ARE FACTORY FOR PASSENGER VEHICLE, TRUCK AND TRACTOR TIRES TO BE ERECTED AT CHIMKENT IN KAZAKHSTAN, A FACILITY AT BELAYA TSERKOV' AND A THIRD PLANT AT VORONIZH. ACCORDING TO ONE SOURCE LATTER TWO FACILITIES WOULD PRODUCE ONLY TIRES FOR OFF-THE-ROAD VEHICLES, ONE PRODUCING TIRES OF THE DIMENSION 40.00 X 57 INCHES - A 57 INCH THICK TIRE FOR A 40 INCH RIM - AND THE OTHER TIRES OF THE SIZE 27.00 X 49 INCHES. ONE U.S. FIRM, WHICH HAS BEEN INVITED TO SUBMIT BIDS ON ALL THREE FACILITIES ESTIMATES THAT EACH OF THE THREE PROJECTS WILL COST ABOUT \$50 MILLION. END SUMMARY.

2. G.V. KULLGREN, PRESIDENT OF HALE AND KULLGREN ENGINEERING, AND L.T. SHARP, DIRECTOR SPECIAL PROJECTS AT AKRON STANDARD, RECENTLY INFORMED COMOFF THAT THEIR
UNCLASSIFIED

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PAGE 02 MOSCOW 05619 251645Z

FIRMS HAVE AGREED TO DRAW UP PACKAGE PROPOSAL FOR LARGE TIRE PRODUCTION FACILITY TO BE CONSTRUCTED AT CHIMKENT IN KAZAKHSTAN. THIS PLANT, WHEN COMPLETED, WILL HAVE CAPACITY TO PRODUCE ANNUALLY ONE MILLION PASSENGER TIRES, 1.9 MILLION TRUCK TIRES AND AN UNSPECIFIED NUMBER OF TRACTOR TIRES. U.S. FIRM REPS ESTIMATE POTENTIAL VALUE OF THIS CONTRACT TO BE WORTH IN AREA OF \$50-60 MILLION. IF HALE AND KULLGREN

AND AKRON STANDARD ARE SUCCESSFUL IN THEIR BID, FORMER WOULD PROVIDE OVERALL ENGINEERING SERVICES AND LATTER MAJORITY OF EQUIPMENT. NEITHER COMPANY HAS DONE ANY DIRECT BUSINESS IN SOVIET UNION IN RECENT YEARS, ALTHOUGH AKRON STANDARD'S DUTCH SUBSIDIARY VMI HAS BEEN ACTIVE. HALE AND KULLGREN WAS PRIMARY CONTRACTOR ON MOSCOW TIRE PLANT WHICH WAS CONSTRUCTED IN 1943 UNDER LEND-LEASE PROGRAM.

3. ACCORDING TO PROTOCOL ON MEETINGS HELD BETWEEN AMERICAN FIRMS AND RAZINOPROJEKT, SOVIET ORGANIZATION RESPONSIBLE FOR ERECTION OF TIRE PLANTS, U.S. COMPANIES WILL SUBMIT TECHNICAL PROPOSALS FOR BOTH CHIMKENT PROJECT AND THE 27.00 X 49 INCHES OFF-THE-ROAD TIRE FACILITY WITHIN 60-75 DAYS.

4. IN ADDITION TO TWO PLANTS ON WHICH THEY HAVE BEEN INVITED TO SUBMIT PROPOSALS, KULLGREN STATED THAT HE UNDERSTOOD THAT SOVIETS WOULD SOON ANNOUNCE DECISION TO PROCEED WITH CONSTRUCTION OF FACILITY FOR PRODUCTION OF MAMMOTH 40.00 X 57 INCH TIRES ALSO FOR OFF-THE-ROAD VEHICLES. H-K TOGETHER WITH GENERAL TIRE HAD ALREADY SUBMITTED A BID FOR THIS FACILITY ABOUT ONE YEAR AGO, BUT SOVIETS HAD DELAYED IN GOING AHEAD WITH THIS PROJECT, PRESUMABLY BECAUSE OF HARD CURRENCY CONSTRAINTS.

5. AKRON-STANDARD AND H-K ARE OPTIMISTIC ON WINNING COMPETITION TO CONSTRUCT ONE OR MORE OF THREE FACILITIES. THEY BELIEVE, HOWEVER, THAT THEY STAND BETTER THAN EVEN CHANCE OF WINNING CONTRACTS FOR OFF-THE-ROAD UNCLASSIFIED

UNCLASSIFIED

PAGE 03 MOSCOW 05619 251645Z

TIRE PLANTS BECAUSE OF DOMINANCE OF U.S. TECHNOLOGY IN THIS AREA. WESTERN EUROPEAN COMPETITION WAS SEEN TO HAVE STRONG POSSIBILITY OF BEING PICKED TO BUILD CHIMKENT DUE TO AVAILABILITY OF LESS-EXPENSIVE FINANCING. COMPETITION INCLUDED BRITISH ENGINEERING FIRM SIMON HANDLING, ITALIAN COMPANYD FATA AND GERMAN CONSORTIUM DEFENCO. ANOTHER AMERICAN COMPANY FARREL CORPORATION OF ANSONIA, CONN. HAS INFORMED US THAT THEY ARE WORKING WITH FATA AND HAVE SUBMITTED BIDS TO SUPPLY OVER \$20 MILLION IN MIXING ROOM EQUIPMENT THROUGH THE ITALIAN FIRM. ALL AMERICAN COMPANIES HAVE SAID THEY WILL BE IN TOUCH WITH US AS SITUATION DEVELOPS AND WE WILL REPORT ON THESE CONVERSATIONS AS THEY OCCUR.

6. COMMENT: IT APPEARS 1977 WILL BE YEAR OF BIG TIRE PROJECTS, AS SOVIETS SEEM NOW TO BE MOUNTING CONCERTED EFFORT TO MAKE UP FOR LAST YEAR'S APPARENT POSTPONEMENTS IN THIS AREA. WHILE US FIRMS WERE OPTIMISTIC ABOUT PROSPECTS, INCLUDING ACCESS TO COMMERCIAL CREDIT, THIS SEEMS TO BE ANOTHER CASE WHERE PERHAPS SUPERIOR AMERICAN EQUIPMENT

MUST OVERCOME COMPETITION OF OTHER WESTERN FIRMS
ENJOYING BENEFIT OF GOVERNMENT-BACKED CREDIT. EMBASSY NOTES
THAT DEALS ARE OF A FINANCIAL MAGNITUDE WHERE SUCH GOVERNMENT-
BACKING IS FREQUENTLY DECISIVE.
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